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**Attorneys At Law**  
Established 1916  
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**PLEASE RESPOND TO:**  
KINGSPORT OFFICE

**WRITER'S DIRECT DIAL NUMBER**  
(423) 378-8858

**WRITER'S E-MAIL ADDRESS**  
bovender@hsdlaw.com

AMEP/Z 80669

**VIA FEDERAL EXPRESS**

Ms. Sharla Dillon, Docket Room Manager  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, Tennessee 37243-0505

Re: **Petition of Appalachian Power Company for Approval of Refinancing and  
New Financing  
TRA Docket No. 04-00371  
Responses of Appalachian Power Company to Staff's Data Request No. 1**

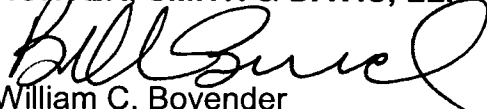
Dear Ms. Dillon:

Per your instructions to Page Lewis from my office, enclosed are eight (8) additional copies of the Responses of Appalachian Power Company to Staff's Data Request No. 1 to make a complete filing.

If you have any questions, please do not hesitate to contact me.

Very sincerely yours,

**HUNTER, SMITH & DAVIS, LLP**

  
William C. Bovender  
Counsel for Appalachian Power Company

cc: Aster Adams w/out enclosures  
David McClanahan w/out enclosures

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December 2, 2004

AMEP/Z 80669

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Re: **Petition of Appalachian Power Company for Approval of Refinancing and  
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Responses of Appalachian Power Company to Staff's Data Request No. 1**

Dear Ms. Dillon:

This letter contains Appalachian Power Company's (Appalachian) responses to the seven (7) questions posed in Mr. Aster Adams' November 23, 2004 letter to me (Data Request No. 1). Per Mr. Adams' letter, Appalachian is filing five (5) copies of this letter with you (a 6<sup>th</sup> copy of the letter is enclosed for you to stamp filed and/or received and to return to the writer). Before providing Appalachian's specific responses to Staff's Data Request No. 1, Appalachian would like to provide the context for its responses by describing the relationship between Appalachian and Kingsport Power Company (Kingsport).

Appalachian and Kingsport are separate legal entities that finance their operations separately. Kingsport is not owned by Appalachian; nor is Kingsport a subsidiary of Appalachian. Both Kingsport and Appalachian are, however, wholly-owned subsidiaries of American Electric Power Company, Inc. (AEP), a publicly traded holding company registered



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under the Public Utility Holding Company Act of 1935 (PUHCA). Kingsport purchases all of its power requirements from Appalachian at wholesale under a FERC-approved tariff and receives some services from Appalachian, at cost, pursuant to the rules of the Securities and Exchange Commission (SEC).

Kingsport owns assets in Tennessee that are used to provide service to its retail customers at rates regulated by the Tennessee Regulatory Commission (TRA). Kingsport's most recent financing application was approved by the TRA by Order dated February 6, 2004, in Docket No. 03-00503.

Appalachian owns a small amount of transmission assets in Tennessee, which, along with its other assets, are currently pledged under its first mortgage bonds. Because Appalachian owns assets in Tennessee, Appalachian has traditionally requested and received approval from the TRA for refinancings and/or new financings. By Order dated November 30, 2004, the Virginia State Corporation Commission approved Appalachian's request for the financing authority that is the subject of this proceeding.

The instant case involves an Appalachian financing application, not a Kingsport financing application. No additional assets of Appalachian in Tennessee will be pledged as collateral for any financings undertaken by Appalachian as a result of the TRA's approval of Appalachian's application in this case. More importantly, the TRA's approval of Appalachian's application will have no effect on the manner in which Kingsport is now or will be financed in the future.

Kingsport might be affected by Appalachian's financing activity to the extent that such financings affect future costs that are either charged to Kingsport (under SEC rules), for services Appalachian provides to Kingsport, or reflected in Appalachian's wholesale electric rates to Kingsport. However, approval of Appalachian's financing application by the TRA could also benefit Kingsport's retail customers, to the extent that Appalachian uses the proceeds from any such financings to maintain or expand property or facilities that are used to provide wholesale electric service or other services to Kingsport.

With this contextual explanation, Appalachian's responses to Staff Data Request No. 1 are as follows:

1. Will any Tennessee Assets (Kingsport Power Company) be pledged as collateral for any secured debt issued? If so, what percentage of Kingsport Power Company's assets will be pledged?

**Response:**

No assets owned by Kingsport will be pledged as collateral for any debt issued by Appalachian as a result of the TRA's approval of Appalachian's financing application for the period through December 31, 2005.

2. Will any of these funds be used for plant expansion, modernization, or otherwise used for the benefit of Kingsport ratepayers? Please itemize projects and approximate amounts projected. Include retirement of debt from the current Kingsport Power Company balance sheet as one of the benefits and/or other benefits such as reduced interest expense for Kingsport Power Company ratepayers.

**Response:**

No funds borrowed by Appalachian will be used for expansion or modernization of Kingsport plant or assets. However, as indicated above, improvements made by Appalachian would benefit Kingsport's retail customers. No retirement of Kingsport debt will occur as a result of the TRA's approval of Appalachian's application.

3. Provide the approximate value of Kingsport Power Company's long-term debt and what the restrictive amount that cannot be exceeded will be.

**Response:**

Kingsport's long-term debt was approximately \$20 million at September 30, 2004. Pursuant to the TRA's February 6, 2004 Order allowing Kingsport to incur up to \$10 million in new additional debt, the permitted amount of Kingsport's long-term debt is currently \$30 million. A TRA Order approving Appalachian's application in this case will not change this \$30 million amount or Kingsport's capital structure.

4. Estimate what Kingsport Power Company's new long-term/short-term interest expense will be compared with its current long-term/short-term interest expense.

**Response:**

TRA approval of Appalachian's financing request will not change Kingsport's long-term debt cost. Kingsport's short-term debt cost will fluctuate according to its outstanding short-term debt balance and current short-term interest rates, but not as a result of the TRA's approval of Appalachian's application.

5. Provide estimated Income Statement with the new interest expense included and estimated increase in revenues at December 31, 2005.

**Response:**

There will be no new interest expense to Kingsport as a result of the TRA's approval of Appalachian's financing application.

December 2, 2004

6. Provide current Balance Sheet and Income Statement for Kingsport Power Company and projected Balance Sheet after completion of the financing transactions as of December 31, 2005.

**Response:**

There will be no direct impact on Kingsport's income statement or balance sheet as a result of the TRA's approval of Appalachian's financing application. As indicated above, to the extent that Appalachian's financings affect future costs that are either charged to Kingsport (under SEC rules), for services provided by Appalachian, or reflected in Appalachian's wholesale electric rates to Kingsport, there may be some affect on Kingsport's future balance sheet and income statements.

7. If all long-term debt is maintained on Appalachian Power Company's books, provide numbers allocated to Kingsport Power Company for the above questions.

**Response:**

Appalachian's long-term debt is maintained on its books and Kingsport's long-term debt is maintained on its books. No Appalachian debt is allocated to Kingsport.

If you have any questions, please do not hesitate to contact me.

Very sincerely yours,

**HUNTER, SMITH & DAVIS, LLP**



William C. Bovender

Counsel for Appalachian Power Company

cc: Aster Adams  
David McClanahan